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SIPDIS

DEPT PLS PASS TO DEPARTMENT OF ENERGY FOR A/S KAREN HARBERT, DEPARTMENT OF COMMERCE FOR ITA/MAC/WLT, ITA/USFCS/OIO/WH/RD

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SUBJECT: CARTAGENA ENERGY CONFERENCE HUGE SUCCESS

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¶11. Summary. Department of Energy Deputy Secretary Clay Sell and Assistant Secretary for International Policy Karen Harbert led a delegation to Cartagena May 19-22 to attend an oil and gas investment conference to promote foreign investment and participation in Colombia's energy sector, primarily from the United States. In his meetings with President Uribe (reported reftel), Minister of Mines and Energy Meija, National Hydrocarbons Agency Director Zamora, Colombian legislators from key energy committees, and major U.S. companies invested in the Colombian energy sector, DepSec Sell affirmed USG support for President Uribe's security and energy policies and emphasized the USG view that Colombia maintains one of the most attractive hydrocarbon investment climates in the region. End Summary.

¶12. Post wishes to express thanks to Deputy Secretary of Energy Clay Sell and the entire team from the Department of Energy for the excellent preparation and execution of the Cartagena Energy Conference. Thanks to their efforts, the conference was successful beyond our most optimistic expectations. Thanks also to Mrs. Sell who helped at representational functions and visited a local USAID project. The recruitment of U.S. companies by DOE was excellent and promoted U.S. interests in increased energy production. In addition, the GOC, from President Uribe to lower ranking energy officials, were appreciative of USG efforts.

Presidential Initiative Backs Conference

¶13. In a November 2004 meeting in Cartagena, Presidents Bush and Uribe discussed the idea of an oil and gas investment conference that would promote the Colombian hydrocarbon sector and increase U.S. involvement in developing Colombia's energy resources. Follow-on high level meetings held between DOE, USGS, the Colombian Ministry of Mines and Energy and National Hydrocarbons Agency (ANH), the U.S. and Colombian embassies, and private sector energy companies promoted conference organization and participation.

¶14. Over 450 participants, including approximately 60 from the United States, took part in Colombia's International Oil and Gas Conference in Cartagena from May 19-21. Participants included Colombian and U.S. industry representatives ranging from small businesses to multinationals, GOC and USG officials, and private sector experts. Small to medium-sized U.S. companies attended with heavy representation from the services sector. Major financial and organizational support provided by ExxonMobil, Chevron, and Occidental Petroleum ensured a successful event. (ExxonMobil is currently engaged in a major exploration project here. Chevron and Occidental are producing oil and gas.) Conference goals included providing an overview of the Colombian hydrocarbon sector and promoting the advantageous business and investment climate and improved security situation. A third important component was a specific focus on the details of financing, support services, and the downstream market that guaranteed whole industry coverage. U.S. and Colombian industry experts in all three areas (OPIC provided representation for financial services) provided relevant knowledge and fostered mutual investment interest. USG and GOC discussions are underway to conduct follow-up activities to the conference.

USG Supports Colombian Hydrocarbon Sector

¶15. In his opening remarks at the conference, Deputy Secretary of Energy Clay Sell emphasized U.S. support for investment climate improvements in the Colombian hydrocarbon sector and for the U.S. commitment to Colombian efforts to develop its energy resources. The Deputy Secretary said security improvements, combined with regulatory reforms in the hydrocarbon sector have contributed greatly to a favorable investment climate, especially when compared to regional neighbors. The DepSec added that he was confident the conference would succeed in promoting Colombia's positive environment for foreign investors by encouraging outside interest in searching the more than 80 percent of the country that remains unexplored for hydrocarbon resources.

16. Ministry of Mines and Energy (MME) Luis Mejia and National Hydrocarbon Agency (ANH) Director Armando Zamora provided an overview of the Colombian energy sector for the conference. Colombia has proven oil reserves of 1.5 billion barrels of oil and 6.7 trillion cubic feet of natural gas located in 18 sedimentary basins. Colombia has proven coal reserves of 7 billion metric tons with an estimated 17 billion metric tons of potential coal resources. Coal production is significant, increasing from 39.5 million tons in 2002 to 53.7 million tons in 2004. Coal exports grew from USD 990 million to USD 1.7 billion during the same period. Regarding electrical power, Colombia has an installed capacity of 13.3 gigawatts transmitted by a 12,266 km national network. The country has a 167 kilometer international network that exports 621 megawatts of power to Ecuador and Venezuela.

Regulatory Changes Enhance Investment Climate

17. The GOC has established an attractive investment climate after completing a series of legislative and regulatory reforms in 2003. Companies pay 8 percent royalty for fields producing 5,000 boe/day to a maximum of 25 percent for fields producing 600,000 boe/day. The new contract model does not require shares in production with Ecopetrol or ANH and the government take has been reduced to about 50 percent compared to the world average of 67 percent. Also, there is no requirement for investors to pay bonuses to the GOC for contract signatures or discoveries and obtaining contract extensions has been made easier.

GOC Fostering Greater Exploration Activity

18. The GOC hopes to expand exploration into the 85 percent of the country that remains unexplored through short-term expansion of exploration contracts and a long-term investment program. In 2004, ANH approved a total of 25 exploration contracts. In 2005, ANH's goal is to approve 30 contracts; it has already signed or is waiting to approve 18. Moreover, there were about 21 A-3 wells and about 6,500 kms of 2-D seismic testing in 2004; ANH estimates there will be 40 A-3 wells and over 12,000 kms of seismic testing in 2005 (16 wells have already been drilled in 2005). ANH plans to invest USD 70 million in obtaining new geological information in 2005. Long term exploration investment plans are also ambitious. Under &Plan 20208 ANH and Ecopetrol plan to invest approximately USD 15 billion in exploration and development projects with the goal of discovering 4 billion boe between now and 2020. ANH's portion amounts to USD 800 million and will be focused on a heavy oil project in the Llanos basin, and other projects in Tayrona, Pacific basin, Sinu-San Jacinto, and Tello fields.

19. During the conference, ANH signed a technical agreement with the University of Florida International's Hemispheric Center for Environmental Technology and Center for Energy and Technology of the Americas. The agreement will facilitate scientific interchange and technical support and training between the Colombian government and the UFI. Both sides are hopeful the agreement will provide greater opportunities to study Colombia's sedimentary basins for hydrocarbon potential.

Defense Minister Uribe Outlines GOC Security Achievements

10. In a panel focusing on the Colombian business environment, Minister of Defense Jorge Alberto Uribe summarized GOC efforts to improve the security situation during President Uribe's administration. Minister Uribe said the administration's strategy has been to greatly increase the numbers and units of armed forces and public security in the field and specifically to regain control of the country's municipalities. The number of security forces increased from 273,000 in 2003 to 373,000 in 2005. In 2002, there were about 400 municipalities without a police presence; in 2005 there are none without a presence. During 2003-2005 the number of homicides dropped from 22,690 (May 03-May 04) to 18,909 (May 04-April 05). Uribe added that, during the past 12 months, terrorist attacks on energy infrastructure have fallen 41 percent and kidnappings are down 52 percent.

Meeting with Colombian Legislators

11. DepSec Sell met with a group of Colombian legislators selected by the Ministry of Mines and Energy to obtain their views on the Colombian energy sector and indicate USG support for Colombian regulatory reforms in the hydrocarbon sector and efforts to encourage foreign investment. Legislators were members of committees covering energy and natural

resource issues and were generally supportive of GOC efforts to promote the sector. Legislators offered a range of views but there was consensus on the following points: 1) support for President Uribe's security policies and their enhancing effect on the investment climate, 2) support for GOC efforts to promote the hydrocarbon sector and the importance of this for the nation's long term economic health, 3) need for continued U.S. support in consolidating security gains and development in the energy sector. Several legislators asked DepSec Sell to convey their gratitude for USG support for the conference and for Plan Colombia to President Bush.

Meeting with the Council of American Companies (CEA)

¶12. DepSec Sell and A/S Harbert met with U.S. hydrocarbon sector representatives operating in Colombia to discuss their challenges and success stories. Mr. Sell opened the meeting by asking for an update on the security situation in Colombia and its impact on doing business here. Company representatives gave their views on the security climate and offered their perspectives on other significant challenges they face. All praised the information sharing between the GOC, U.S. Embassy, and inter-company exchange promoted through the Overseas Security Advisory Council (OSAC). The Colombian chapter of OSAC, Diplomatic Security's program to protect U.S. multinationals operating overseas, has 89 U.S. multinational members and 31 guest companies.

¶13. Companies had varying views on the most important challenges they face when operating in Colombia. Occidental reported they had reached security agreements with the Colombian military to provide for protection of oil pipelines and other infrastructure and that their company regularly shared information with the U.S. Embassy and U.S. corporate headquarters. Occidental had benefited greatly from this cooperation and credited President Uribe's security policies for significantly lowering attacks against oil pipelines. On the other hand, Occidental stated that the GOC needed to further develop its ability to secure remote areas if it wanted to encourage further foreign investment. Drummond executives stated that while security is an ongoing concern, they have mitigated the problem by investing in a 6,000 member local workforce and contracting the Colombian military to provide more than 900 soldiers for perimeter security at one of the world's largest surface coal mining operations. Drummond's main challenge has been training its local labor force but believed job creation and the company's social investment in schools, hospitals, and roads has built community support for its operations. As a result, attacks against the company by illegal guerrilla groups operating in the area have been drastically reduced. Chivor, an operator of a 1000 MW electric plant in Colombia, stated its main concern is focused on the capacity of the GOC to conduct regulatory change. Colombia had made good progress in recent reforms in the hydrocarbon sector and Chivor hopes that this capacity can be maintained for future changes it may seek in electrical power regulations.

Site Visit - Drummond Ltd. Mine

¶14. After the conclusion of the conference, DepSec Sell and DCM Drucker conducted a site visit to one of the world's largest surface coal mining operations, operated by Drummond Ltd., Cesar Department, northern Colombia. Post will report details via septel.

DRUCKER